

The Unfinished Task of Eradicating Rural Poverty

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I am most grateful to President Fawzi Al-Sultan for inviting me to give the first public lecture under the programme of activities that will lead to the publication of IFAD's "Rural Poverty Report 2000" later this year. The report itself will generate a common understanding of poverty and provide a stronger basis for intensifying IFAD's cooperation with its partner organizations.

For me personally, coming to IFAD is like coming home. As many of you are aware, I was deeply involved with the initial idea to create a new fund, with its "brick-laying" and then with its formative years. So today, 22 years later, it is both timely and important to look back to the initial vision on which IFAD was created, to evaluate its achievements and constraints and most important of all, to explore how IFAD can strengthen and expand its role in contributing to the unfinished task of eradicating rural poverty.

Let me say at the outset that, I am both struck and overwhelmed by several paradoxes and ironies that characterize the situation before us:

- On the one hand, poverty as an issue has received unprecedented international attention in the past two decades; on the other hand, the number of people living in absolute poverty has increased dramatically. An estimated 3 billion, or half the world population, are living on less than USD 2 a day. About 40 percent of these or 1.2 billion people are extremely poor and have to subsist on only USD 1 a day.

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- The process of globalization and the adoption of market oriented policies has greatly accelerated the pace of growth in USA, other rich countries and some of the newly industrialized countries, but the majority of developing countries have seen negative or slow growth rates, stagnant exports and declining living standards in the past 10 years.
- Prices of most agricultural and primary products in world markets have been lower in real terms in the 1990's, than a decade earlier. While developed countries have the financial means to provide large subsidies to their farm sector (estimated at about USD 200 billion a year) to protect incomes and living standards, farmers in most developing countries have seen their real incomes go down. In general the benefits of free trade promised to developing countries in WTO, have not materialized.
- The rapid advance in communication technologies is now creating new opportunities for growth and commerce. Since only a few developing countries will be able to participate in these opportunities, the overall gap between the rich and poor nations, already very wide, will now become even wider.

Partly because of these stark realities and their longer term implications, the international community is showing renewed awareness of the grave problem of poverty and hunger. As we enter the 21st century, the most critical issue before us is whether this awareness can be converted into resolute national and international actions to halve the proportion of people living in extreme poverty. Let us examine the prospects and explore the positive achievements and the constraints we face in meeting this challenge.

The complex reality of poverty

Poverty has many dimensions and each has its own causes and determinants that vary over time. At the conceptional level, we now

have a much deeper understanding of the nature and causes of poverty but in practice, the negative and positive factors that may tend to increase or decrease poverty often operate simultaneously. It is therefore difficult to predict whether a given package of interventions will actually lead to poverty reduction.

The most common indicator of poverty is a pre-determined *income level* below which a family cannot survive. One dollar per day is widely accepted as the cut-off point to categorize those who are living in extreme poverty. Then there is the related concept of consumption based poverty, or the basic needs perspective (minimum food per capita, access to clean drinking water, basic health facilities or primary education).

These supplementary indicators of poverty are, of course, dependent on family income, but not entirely. In some countries a given level of per capita income may not be accompanied by a corresponding level of food security or access to basic needs. These relationships vary enormously from one country to another. A careful analysis of this relationship and the variation from one country to the other can provide a very good starting point for evolving a national strategy for poverty reduction.

The causes of poverty are often *structural and inherent*. The root of these structural causes lies in the basic social structure of a rural society, with its inequitable distribution of land and a feudal, ethnic or tribal system which often perpetuates this inequality. Continuing population growth further reduces the per capita land holding or other assets of the family. The poor in any society are not a homogenous group, but an amalgam of different groups, each with its own social or ethnic handicaps and political alignments. Women in general are more disadvantaged than men.

These inherent causes are often compounded by *man made or policy induced factors* like (i) inadequate access to credit or other income generating assets; (ii) adverse terms of trade for agriculture combined with low crop yields, (iii) urban and industrial bias in macro-economic policies (iv) civil wars and local conflicts and (v) absence of safety nets that will protect vulnerable groups

or people living in marginal areas from the effect of droughts and other natural disasters.

Most of the policy biases mentioned above are only partly deliberate. Even countries which recognize the importance of agriculture, in practice adopt policies that *discriminate against agriculture*. Many of these discriminating policies are the indirect result of their efforts to industrialize behind high tariff walls. Agricultural imports are however often allowed without duty to keep prices of food and raw material low. In addition, many agricultural exports are taxed. As a result of such a policy framework, the internal terms of trade move against agriculture and reduce the relative profitability of investment in agriculture.

Within the agriculture sector, prices and incomes of small farmers are even more seriously affected by these negative economic policies. In any poverty assessment, a careful review of the macro-economic policies is thus necessary to determine whether these policies in their net impact, are negative, neutral or positive for the poverty reduction efforts.

As if these inherent and structural factors were not onerous enough, many *global policies and exogenous trends* have also contributed to the misery of poor people and pushed a larger percentage of people below the poverty line. Enough empirical research has not been undertaken to determine the full impact of globalization policies on the poorest segments of society but some negative trends are fairly clear. The Latin American economic crisis in the mid 1980's which led to a drastic fall in per capita incomes was the direct result of a rise in global interest rates. The capital account liberalization policy, which became a very important component of free market policies adopted by many developing countries not only increased the vulnerability of these countries to external shocks but along with an inflexible exchange rate policy, led to a serious economic crisis, (Mexico 1994, and Thailand, Indonesia, Malaysia and South Korea in 1997).

This crisis also led to a sharp reduction in the income levels of the poorest 40 percent of the population. In Indonesia, for example, years of efforts for poverty reduction were wiped off and the incidence

of poverty virtually doubled in a single year, from 11% in 1996-97 to 22% of population in 1998. In Pakistan, the level of poverty, which between 1965 and 1990 had declined from 40 to 22% has again gone up to 30% in the 1990s, as the growth rate slowed down and the level of remittances by expatriate workers declined by 50 percent.

Other adjustments and stabilization policies have also had a negative impact on poverty by cutting down public expenditures, reducing subsidies to agriculture, and raising taxes. The result is a bitter mixture of growing unemployment, higher prices and slower growth. The poor, notwithstanding their initial limited capacity, thus had to bear a disproportional share of the burden and hardship brought about by an economic slow down or a stabilization programme. That is why, according to Prof. A. K. Sen, "poverty is ultimately a matter of capability deprivation."

To sum up, a conceptual synthesis of the chronic or inherent causes of poverty with man-made or policy induced biases, and the overall growth of the economy including the global factors lead the identification of certain key factors that will determine the incidence of poverty in the coming decade:

- 1) Sustained economic growth is critical for poverty reduction, since it increases the demand for labour, raises real wages and enhance the fiscal space to expand social services.
- 2) Where economic growth is labour intensive, its impact on poverty reduction is proportionately greater. Labour intensive growth emanates from agriculture, small and medium scale industries and the services sector.
- 3) Another determinant of poverty is the pattern of income distribution. According to one Senior World Bank official, a growth rate, which is equal or just above the rate of population growth, will generally worsen poverty. However, a growth rate, which is twice as large as the rate of population growth, will bring about a perceptible reduction in the level of poverty in countries in which income distribution is not so skewed. In countries in which

income distribution is highly skewed, as in Brazil for example, GDP growth at a pace three times greater than the rate of population increase will be required to make a significant dent in poverty. Conversely a 1% drop in GDP will add 2.5 million people or 1.6% of the total population to the pool of poverty.²

- 4) Growing volatility in the global economy is lethal for the poor, as it leads to a drastic fall in employment in the formal sector, followed by a corresponding fall in informal employment and then a general slowdown in industrial production due to compressed demand. This volatility in capital markets, brought about mainly by movement of global pension and other funds, can lead to an economic crisis as in East and Southeast Asia in 1997. But even when that does not happen, *perpetual volatility*, marked by uncertainty and unpredictability, with a modest slowdown in the economy may become a more frequent phenomenon, with serious implications for national and international efforts to reduce poverty. Such a grim prospect can be countered only through massive public sector employment and training programmes, and other safety nets for the poor.
- 5) In general, the poor in most societies can be divided into two groups: the chronically poor who live on USD 1 a day and whose situation can be improved through sustained efforts over a long period of time; and the poor who generally earn between USD 1 and 2 per day and who benefit quickly from economic growth. This group can graduate out of poverty if a healthy rate of growth, two or three times the rate of population growth, can be sustained for a period of five to seven years. This very group, as we saw in South East Asia recently, can however fall back below the poverty line of USD 1 per day if there is a slowdown in the rate of economic growth.
- 6) While labour intensive and sustained economic growth is necessary for reducing relative poverty, it may not be sufficient by itself to make a significant impact on the absolute poor

suffering from chronic and structure handicaps and living on less than USD 1 a day. That requires a sustained and comprehensive process of *social development* which will include: (i) access to education and primary health care, (ii) strengthening civil society organisations to organise and empower the poor so that they can increase their access to credit and other income generating assets, (iii) improving the macro policy environment for agricultural and rural development, including positive terms of trade for these sectors, (iv) targeted interventions in favour of the poor, including women and other vulnerable groups.

If these determinants of poverty are assessed in the light of actual experience of the past decade, the prospect of reducing poverty in the coming decade would not seem very encouraging. Only one third of the low income countries have been able to achieve and sustain economic growth rates of 5 percent or more. Middle income developing countries, which have been achieving higher growth rates of over 6 percent, are now facing much greater volatility and uncertainty arising from unpredictable capital movements across the international frontiers. The process of globalization has led to a major explosion of wealth and technology in Western Europe and North America. But at the same time, it has increased disparities between the developed and developing countries and widened the gap between rich and poor people within those developing countries that have embraced the process of globalization.

Considerable attention has been paid to the past two decades to the development of human capital and to targeted intervention in favour of the poor. The growth of civil society institutions has also been unprecedented. Where the macro factors were favourable, the combination of rapid growth and broad based social development brought about a significant reduction in poverty levels, as in East Asia and South East Asia. But in the rest of Asia and Africa, these targeted interventions were not enough to counter the impact of slower growth on poverty levels. A concerted attack on the problem of poverty to achieve a significant reduction in the number of people suffering from hunger and deprivation will

² World Bank: Report on a Social Protection Special Sector Adjustment Loan to Brazil, Report No. 7221BR; Dec. 16, 1998, p. 9.

therefore require systematic and sustained attention to all the determinants of poverty.

The Task Ahead

For the first time, the international community has accepted a specific target for poverty reduction. The Copenhagen Summit on Social Development held in March 1995 adopted the target for a 50% reduction in the proportion of people living in extreme poverty by the Year 2015. This target was endorsed by Development Assistance Committee of OECD in 1996 and by the World Food Summit held in the same year.

This is a remarkable juncture to evolve a more effective international framework for decisive action to move towards this target.

In the past few months, both the IMF and the World Bank have undertaken a major redirection of their policies and priorities to focus on poverty reduction as a major objective. The IMF has replaced ESAF, their soft loan window for low-income countries, with a Poverty Reduction and Growth Facility (PRGF) and the World Bank is evolving a Comprehensive Development Framework (CDF). The key elements of both these initiatives are: (i) a comprehensive understanding of poverty and its determinants in each country, (ii) choosing public actions that will have the highest impact on poverty, (iii) outcome indicators which are monitored using a participatory process. Each participating country is expected to prepare its own "Poverty Reduction Strategy Paper", (PRSP) setting out medium and long term goals for poverty reduction, including key outcomes, and spell out a strategy that integrates institutional, structural and sectoral interventions into a consistent macro-economic framework.

The World Bank is expected to revise its priorities and lending operations for that country as a part of its Country Assistance Strategy. Similarly the IMF, in providing assistance under PRGF, will attempt to integrate poverty reduction with macro economic policies. Other donors are expected to participate actively in the design of PRSP and make medium term commitments in support of the strategy agreed in that document.

The Asian Development Bank has also recently announced that "reduction of poverty is no longer just one of five objectives, it is ADB's overarching goal. To this end, the other strategic objectives (i.e. economic growth, human development, sound environmental management and improving the status of women will be pursued in ways that contribute most effectively to poverty reduction. The fundamental shift will affect every aspect and level of ADB's operations."

Potentially, these policy shifts by these institutions can be extremely important for the poverty reduction efforts in the coming decade but the final impact will depend on the actual implementation of these initiatives.

There is no clear indication so far, that the Bank and the Fund will be able to mobilize substantial additional resources for poverty reduction. If additional resources are not provided, and the specific poverty reduction interventions and the safety net are to be financed only by certain readjustments within the existing IMF/WB programmes in the country concerned, then the PRSP can become another conditionality like good governance. Untied resources for budgetary and balance of payments support similar to those provided as structural adjustment loans for macro stability will be necessary to induce the policy and institutional changes necessary for a meaningful poverty reduction strategy. After the fall of the Berlin Wall, Germany for example, has been spending almost USD 100 billion a year to bring up the living standards in former East Germany to the national average. It will be futile to expect that annual expenditures of USD 2 or 3 billion will halve the number of poor people within a decade.

The second constraint springs from the underlying assumption that policies to ensure sustained economic growth with macro economic stability will be fully consistent with the objectives of poverty reduction. A recent study carried out in India shows that the programme of economic liberalization carried out in the past eight years, while achieving positive economic gains has not been helpful in reducing poverty. The IMF stabilization programmes invariably call for fiscal restraints to cut down the budgetary deficit.

Any meaningful poverty reduction programmes, on the other hand, will require a series of programmes to build rural infrastructure, to expand education and health facilities and to provide micro credit on a large scale. Social safety nets will require subsidized food or public works programmes to generate employment. A recent IMF paper alludes to this conflict in the following words: "given that inflationary financing represents a tax whose incidence falls on the poor, the risks here need to be weighed carefully. Sacrificing low inflation to finance additional expenditures is not an effective means to reduce poverty, particularly in cases where inflation is above single digit levels."³ How this conflict is resolved in practice remains to be seen.

A third factor, which would greatly influence the outcome of these initiatives, is the gradual reorientation of these organizations to reduce the impact of the urban bias and the traditional approach to large projects.

To overcome these constraints and to build an effective framework for a more determined attack on poverty, all the agencies should join hands to coordinate their efforts and programmes in what Mr. Michael Camdessus recently called "reinvigorated multilateralism".

The first step in this task is to quantify the target of halving the proportion of poor people by the year 2015 and evolve an interagency database to monitor progress towards the target, as a minimum at five yearly intervals, starting with the year 2000.

The next step would be to work out an estimate of the additional financial resources that will be required to achieve this target, partly by updating the estimates presented to the social summit in Copenhagen in 1998.

The financial resources required for poverty reduction can be divided into three different categories:

- Funds for direct intervention to alleviate chronic and structural poverty, similar to those undertaken by IFAD.
- Funds needed to expand social and physical infrastructure in rural areas. These would include rural roads, electricity, schools, health facilities and drinking water and sanitation.
- Budgetary support for public works and other employment generating programmes and safety nets to counter the effects of volatility in capital markets or an economic slow down.

There is no assurance that financial resources alone would bring about the desired reduction in poverty levels. But if these resources were packaged in a comprehensive adjustment framework, this would persuade the country concerned to review and readjust macro-policies in favour of agriculture, to protect allocations for social and rural infrastructure from budgetary cuts and fund programmes that would promote participatory institutions in rural areas. Such a comprehensive and integrated development framework, backed by untied resources, is absolutely vital for achieving the global target of a 50% reduction in the proportion of poor people.

It is very unlikely that institutions like the World Bank/IMF, Regional Development Bank and IFAD would be able to mobilize additional resources on the required scale for poverty reduction by readjusting their existing programmes and priorities. The current dichotomy between the international community's emphasis on poverty reduction on the one hand and its reluctance to provide additional resources to IFAD to enable it to build on its focused and successful approach on the other, dramatically illustrates the constraints imposed by political considerations peculiar to each institution. The need therefore is to look for autonomous and self-sustaining sources of funds for poverty alleviation.

One promising source might be debt relief. The international community has already agreed in principle to write off the debt of the poorest countries. The concept can be extended to other

³ IMF: The Poverty Reduction and Growth Facility— Operational Issues. Document SM/99/293 dated 13 December 1999, p. 4.

developing countries provided the amounts accruing from debt relief are devoted exclusively to poverty reduction. This can take several forms. One might be for participating donor countries and agencies to agree to divert, for a period of five years, all interest payments on official development assistance, into a poverty reduction fund, to be managed jointly by the World Bank, Regional Development Banks and IFAD and utilized in support of National Poverty Reduction Strategies.

Some donors might agree to allocate not only interest payments but also total debt payments to the proposed Poverty Reduction Fund, either at the global level or within the country concerned. Italy for example, has already decided in principle, on a 'debt swap' initiative, under which debt owed by four countries (Peru, Ecuador, Egypt and Philippines) will be devoted to poverty reduction programmes in these countries. If concrete proposals can be developed in time, these could be submitted to the next G7 Summit for consideration as a follow up of G7 decisions of June 99 summit held at Cologne.

IFAD's Role

Considering the limited resources provided to IFAD and the operational constraints inherent in its structure, IFAD has done remarkably well in pursuing its important mandate and retaining its focus on the poor at its true clients. Many other UN agencies instead have been treating governments as their true clients. IFAD deserves full praise for this.

The External Assessment of IFAD carried out in 1994 and the 1999 Consultation to review the adequacy of the Resources available to IFAD have highlighted the following specific achievements:

- IFAD's comparative advantage and core competency as an international financial institution are based on its ability and creativity in field testing investment options. These options are directed at specific target groups of the rural poor, living on the margin of viable livelihoods, who are largely bypassed by mainstream development programmes.
- IFAD's record in promoting participatory development and strengthening local institutions is encouraging.

- There are many examples which show that IFAD's projects are replicable in other areas and other countries.
- The Fund has acquired valuable knowledge about poverty, its nature and causes. In seeking new and innovative ways to address the constraints faced by the beneficiaries in a diversity of local contexts, it has consolidated, refined and enhanced its "intellectual capital."

It is both ironic and sad that while IFAD's positive experience in dealing with the most important development objective of our time, namely reducing poverty and hunger, has been so widely acknowledged, it has not been provided adequate resources to expand its activities, replicate successful projects and to have some impact on national policies and institutions.

In the past 22 years, IFAD has committed a total of USD 6.8 billion for 548 projects in 114 countries. That works out to average annual loan approvals of about USD 310 million. Actual cumulative disbursements have been only USD 4.0 billion or USD 180 million a year. Even if there is some marginal increase in the annual lending levels, it will be totally inadequate to carry out the broader tasks proposed by the 1999 Consultation for IFAD, namely "that national and sectoral policy issues, relevant to programme of success should be given grater priority; that fullest participation by respective beneficiaries and stakeholders should be ensured and that IFAD's ability to assess the policy environment, and ways of influencing it through its own operations and policy dialogue with borrowers should be improved."

In all fairness, how can IFAD accomplish all this with the lowest ever replenishment under the 5th replenishment and also make a significant contribution towards the global target of halving the proportion of poor people by the year 2015?

The answer to this dilemma lies in evolving a framework for concerted action by all the financing institutions and concerned UN agencies. If the proposal mentioned above to create a global poverty reduction fund is implemented, it will need a different kind of coordinating mechanism which should be relatively free from political considerations and burden sharing formulae that inevitably dominate replenishment discussion within each financing institution.

The World Bank and IMF have both emphasized that the initiative for evolving a Comprehensive Development Framework and the National Poverty Reduction Strategy should come from the country itself. They have also underlined the fact that the incidence of poverty is affected by so many diverse factors that no single international institution can take responsibility for financing or supporting the strategy as a whole. The 1999 Consultation on IFAD has also emphasized "the overriding importance of developing strategic partnerships with other stakeholders, recipient member governments, multilateral and bilateral donor agencies, the private sector, non-governmental and community based organisations and other civil-society actors working closely with the rural poor. Given the dimensions and complexity of the challenge of poverty eradication and given the Fund's small size and resource base, IFAD would not attempt to do it alone."

Defining IFAD's role for the coming decade, in the light of these developments will require more study and discussion, but some suggestions about the directions in which this role should evolve are outlined below:

- a) The main focus of these expanded activities should be to strengthen IFAD's capacity to assist interested member countries to formulate their national poverty reduction strategies. This would include a detailed poverty assessment study, determination of the most important policy changes that will improve the terms of trade for agriculture and rural sectors and the successful projects or programmes that can be replicated to organize the chronically poor and improve their incomes. The institutional changes incorporated in the strategy, will pay particular attention to successful community organizations.

- b) IFAD's operational experience in implementing and monitoring projects for the benefits of the poor, in a large number of developing countries in the past 20 years can be a valuable starting point in the preparation of national strategies for poverty reduction. Systematic preparatory work will be required to pool together this expertise, distill the main poverty determinants in the country concerned, and build on successful projects.
- c) IFAD can also offer to cooperate with the World Bank in its new initiatives to develop a Comprehensive Development Framework (CDF) for interested developing countries to bring together macro-economic aspects of the development strategy with social, structural and human aspects. IFAD can explore, keeping in view its experience and comparative advantage, the specific contribution it can make to the evolution of the Comprehensive Development Framework and subsequently participate in the implementation of programmes that focus on institution building, participation of community organizations or micro-credit. These possibilities can be explored in concrete terms for some of the countries that might be included in the Heavily Indebted Poor Countries Debit Initiative (HIPC DI).

It is a great irony of history that a very determined phase of poverty reduction efforts in the past two decades should have coincided with a slowdown in the pace of economic growth in Latin America in the 1980s and Asia in the 1990s. In the coming decade, however impulses for growth will come largely from knowledge and human capital and not only from commodity production and financial capital. The role of civil society is empowering poor people to leap frog the development process and participate fully in the communication revolution that is now sweeping the world is also becoming increasingly critical.

These factors can create a very positive enabling environment for poverty reduction efforts. If the international institutions concerned were to assist their member countries to evolve and implement effective poverty reduction strategies and the international community were to make additional financial

resources available to support these national strategies, we might see decisive progress towards the globally accepted target of bringing about a 50% reduction in the proportion of poor people by the year 2015.